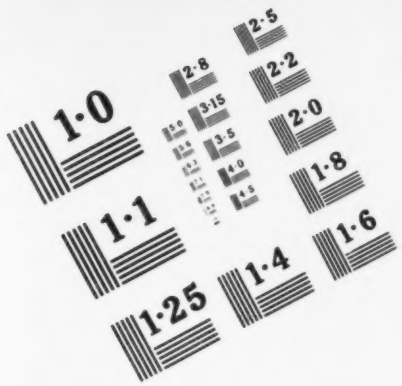

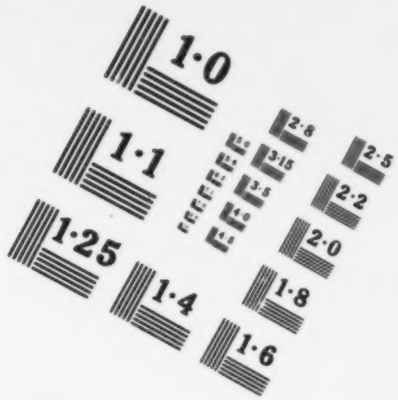

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Foreign Economic Trends and Their Implications for the United States

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U.S. DEPARTMENT OF COMMERCE
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MALAWI - KEY ECONOMIC INDICATORS
(millions of U.S. dollars unless otherwise indicated)

Domestic Economy	1987	1988	1989	1990(1)
Population (millions)	8.0	8.3	8.6	8.9
GDP (current)	1248.0	1444.3	1610.8	2058.4
GDP per capita (dollars)	156.0	174.0	187.3	231.3
Real GDP growth (%)	1.5	3.3	4.3	4.8
Consumer price index (% change)	37.3	31.4	15.7	12.4
Gov't. deficit (% of GDP)	-9.3	-6.8	-6.3	-6.3
Balance of Payments				
Exports (FOB)	278.5	297.0	270.3	321.2
Imports (FOB)	177.6	253.0	302.2	343.1
Trade balance	100.9	43.9	-31.9	-21.9
Current account deficit	-60.2	-109.9	-196.9	-202.7
External debt	1150.7	1296.7	1306.4	1412.9
Debt service ratio (%)	46.9	47.3	37.5	29.1
Debt service ratio (after relief)	46.8	32.9	36.9	N/A
Average annual exchange rate (Kwacha per $1.00)	2.208	2.561	2.759	2.759
U.S.- Malawi Trade and Investment (2)				
U.S. exports to Malawi (FAS)	9.2	12.4	14.1	14.9
U.S. imports from Malawi (CIF)	29.9	41.2	35.3	36.8
U.S. investment (3)	5.4	6.2	8.2	12.0
U.S. share of Malawi imports (%)	5.2	4.9	4.7	4.6
U.S. share of Malawi exports (%)	10.7	13.9	13.1	10.7
U.S. Assistance (4)				
Bilateral development	11.5	28.1	19.9	21.6
Regional development	10.5	15.9	0.0	0.0
Food	0.0	3.9	4.4	7.3
Military	0.7	0.7	1.5	2.2

Principal U.S. exports: Office equipment, electrical components, computers, corn and grains, tobacco.
Principal U.S. imports: Tobacco, sugar, textiles and apparel, macadamia nuts.

1. Projected, unless otherwise indicated. 2. U.S. trade figures for 1990 projected from U.S. Dept. of Commerce data for first 8 months. 3. Embassy estimates. 4. Obligations by fiscal year.

Sources: National Statistical Office, IMF, World Bank, Reserve Bank of Malawi, U.S. Embassy, U.S. Dept. of Commerce.

SUMMARY

Malawi is a landlocked country in southeastern Africa of 37,000 square miles -- about the size of Pennsylvania. With an estimated 1990 per capita GDP of $231 and a population of 8.9 million, Malawi ranks among the world's least developed countries. Approximately 85 percent of Malawi's work force is engaged in agriculture, which accounted for 36 percent of GDP and 90 percent of export earnings in 1989. Malawi has relied upon a successful agricultural sector as the primary engine for development since independence in 1964. Normally self-sufficient in staple food production given favorable climatic conditions, Malawi also produces tobacco, tea, sugar, groundnuts, coffee, and cotton. However, drought and mealy bug infestation in 1987, another long dry spell in 1989, and a burgeoning refugee population (900,000 by December 1990) combined to disrupt the performance of the economy.

Malawi's terms of trade deteriorated over the 1980s, as the prices of its principal agricultural exports lagged behind steadily rising import costs. The biggest single factor affecting Malawi's terms of trade has been the sharp rise in transportation costs due to closure of the rail links through Mozambique to ports on the Indian Ocean and the resulting lengthy transportation routes through South Africa and Tanzania. Malawi has followed several World Bank/IMF structural adjustment programs since the early 1980s, and rescheduled its external debt in 1988. Malawi's performance under these programs has allowed the country to benefit significantly from debt relief.

Over the next several years, Malawi's ability to import will depend largely upon hard currency earnings from its major exports (tobacco, tea, sugar, and coffee), external aid flows, and success in maintaining reliable and cheaper transportation routes. At the moment, Malawi enjoys rising commodity prices for tobacco and sugar, adequate aid flows, and functional transportation routes. Although the transport routes still face continuing security problems as a result of the civil war in Mozambique, there is optimism in the local economy that the situation will continue to improve.

PART A - CURRENT ECONOMIC SITUATION AND TRENDS

Real Gross domestic product (GDP) grew by 4.3 percent in 1989 after 3.3 percent in 1988. GDP in 1990 is expected to have expanded by 4.8 percent despite the long dry spell experienced in February 1990. The drought had an adverse effect on agricultural output, especially that of the smallholder subsector. Driving economic growth during the last three years were the renewed availability of foreign exchange, strengthened international prices of tobacco and sugar, and increased

tobacco output. By December 1989, inflation had dropped to 15.7 percent with the Malawi Government hoping to reduce it further by the end of 1990.

In general, business confidence is bullish, as the renewed availability of foreign exchange has allowed the business community to repair capital equipment and import commodities unavailable in Malawi. However, the current economic recovery rests upon a foundation Malawi can do little to control, i.e., external transportation routes, world agricultural commodity prices, and the weather. Clearly, one aspect of the recovery is donor confidence in Malawi and the substantial accompanying aid flows which help fuel the current expansion.

Balance-of-Payments: Malawi's balance-of-payments position during 1989 deteriorated significantly, due to external factors. The deficit on the merchandise trade account was $33.7 million in 1989 as compared to a surplus of $40.4 million in 1988, as imports surged by over 35 percent in dollar terms. The current account showed substantial deficits of $110 million in 1988 and $196 million in 1989, attributable not only to large import bills but also to high external debt service payments and shipment costs. The capital account balance did not perform well in 1989 due to a slowing in the receipt of funds from the World Bank's Industrial and Trade Policy Adjustment Credit (ITPAC), the International Monetary Fund's (IMF) Enhanced Structural Adjustment Facility (ESAF), and other donor financing.

With support from the IMF, the World Bank, and bilateral donors, Malawi began an import liberalization scheme in February 1988 which allowed commercial banks to approve foreign exchange requests for certain import categories, mainly, raw materials for manufacturers, fertilizer, petroleum, and spare parts, without government clearance. In August 1989, the third phase of the import liberalization program was undertaken to encompass 100 percent of raw materials, industrial spare parts, and intermediate goods, including goods related to commercial transport and some consumer goods for which there is domestic competition. Malawian businesses have utilized trade liberalization to import badly needed items to refurbish industry and restock raw materials.

Ironically, this upsurge in imports due to pent-up demand resulted in a liquidity squeeze on the commercial sector. Furthermore, the fall 1990 surge in petroleum prices due to the Gulf crisis brings to question Government of Malawi (GOM) implementation of the final phase of liberalization. With adequate foreign exchange reserves, the government is confident Malawi will have time to reach a sustainable external trade balance. Only 25 percent of Malawi's external debt is owed to London and Paris Club creditors. The rest is owed to multilateral organizations such as the World Bank, IMF, and the African Development Bank (AfDB).

Donor Assistance: Malawi is very dependent on Western donors to implement its national development program and accomplish economic structural adjustment. Concessional assistance levels have averaged more than $200 million annually over the past several years, and these levels are expected to be maintained due to Malawi's economic needs and the government's image as a prudent manager of external and domestic financial resources. The principal donors to Malawi include the United Nations, the World Bank, IMF, Japan, the Federal Republic of Germany, the European Community, the United Kingdom, the United States, and the AfDB.

Fiscal/Monetary Issues: Following public sector expenditure overruns in 1986, a fiscal austerity program was introduced in August 1987, in consultation with the IMF and World Bank, to mobilize revenues and contain expenditures. Malawi's budget deficit was reduced to 5.5 percent of GDP in 1988/89 and was projected to rise only slightly in 1989/90 to 6.3 percent of GDP. Broad money rose by 5.5 percent in 1989, representing a marked deceleration in the growth of the money supply as compared with the preceding year's 18.4 percent increase. The slowdown occurred against the background of several policy initiatives implemented in the context of the revised Reserve Bank of Malawi Act, which became effective in April 1989. The new act enables the Reserve Bank to engage fully in modern banking functions, including open-market operations, establishment of reserve requirements, and last-resort lending to the banking system. In addition to the Reserve Bank of Malawi Act, a revised Banking Act, effective in December 1989, provides the basis for improved supervision of the financial sector and makes provisions for introducing capital adequacy and minimum liquidity ratios. Fiscal responsibility and monetary control resulted in remarkable progress in controlling inflation in 1989. The annual rate decelerated from 31.4 percent in 1988 to 15.7 percent in 1989. The Malawi Government hoped to reduce inflation to 12.4 percent by December 1990.

Employment and Wages: Only about 10 percent of Malawi's working age population is engaged in wage employment. The number of paid employees increased in 1988 to 429,117, up from 407,393 in 1987. The highest increase of 10 percent was registered in the agriculture, forestry and fishing sectors. Manufacturing and building/construction recorded increases of 8.16 percent and 5.7 percent, respectively. Although Malawi has a surplus of unskilled labor, there are acute shortages in professional and technical fields. Effective May 1, 1989, the minimum wage was approximately doubled to $0.82 per day in the major cities, and $0.66 per day in the rural areas. This is the first minimum wage increase since August 29, 1986. Employers primarily affected by the minimum wage increase are agricultural estates and government.

Agriculture: Strengthening the agricultural sector, which provides 37 percent of GDP and over 90 percent of export earnings, is of primary importance to the government. Smallholder farmers account for 77 percent of agricultural production and virtually all staple food crops. The estate subsector accounts for only 23 percent of production, but almost all agricultural export earnings. Driven by increased production of maize and tobacco, real output in the agricultural sector grew by 3.5 percent in 1989 compared with the growth rate of 2 percent recorded in 1988. Most of the impetus to growth in the agricultural sector came largely from the estate sector, which grew by 9.6 percent, as opposed to the smallholder sector, which expanded by only 1.6 percent.

Maize is Malawi's primary subsistence crop, with maize self-sufficiency being a national security objective. Because of floods, a burgeoning Mozambican refugee population in 1988/89, and a cessation of rains in early 1990, production has not met internal demand. Donor assistance has allowed Malawi to rebuild its strategic grain reserve, and all refugee maize requirements are now provided by the donor community. Tobacco exports accounted for 63 percent of Malawi's 1989 export earnings. At the end of the 1990 selling season, burley production rose to about 64 million kilos, far beyond expectations. The industry is looking towards producing approximately 75 million kilos of burley for the 1990/1991 season. Tea earnings in 1989 improved over 1988, both from production increases and firmer auction prices. Unfortunately, this trend softened in 1990 with prices falling to lower levels. Despite lower prices, tea production is expected to increase with new plantings coming into production. While sugar output declined by 7.5 percent in 1989 from 1988 levels, increases in external demand from the United States and Europe have resulted with significant increases in capacity in Malawi's two large sugar estates. Coffee is an increasingly important export crop for Malawi, which produced 4,320 tons of mild arabica in 1988. This is 13 percent lower than the 1987 crop of 4,966 tons. Coffee has overtaken groundnuts as Malawi's fourth leading export.

Transportation: Difficulties with the external land transportation network provide some of the most serious constraints to Malawi's economic development. The AfDB estimates that Malawi ranks number two in the world for the most expensive external transportation routes. Recent estimates indicate that excess costs due to not being able to use the railroad lines through Mozambique cost Malawi over $100 million in 1989, up from $75 million in 1988. This is equivalent to 34 percent of the country's export earnings.

Before 1981, over 90 percent of Malawi's imports and exports moved by rail through the Mozambican ports of Beira and Nacala. Traffic via both routes was virtually halted since April 1984 as a result of insurgent activities in Mozambique,

and Malawi was forced to rely upon lengthy overland routes through Tanzania, Zimbabwe, and South Africa. Even then, goods shipped along the Zimbabwe/South African route had to still transit the Tete province in Mozambique, which remained subject to continuous harassment by Mozambican rebels. In late 1989, the Nacala line was reopened to limited traffic, but the Beira line remained closed. Even if the problem of insurgency in Mozambique were to be resolved, it will take substantial financial resources and infrastructural development to restore the level of operations once enjoyed by both lines.

Regional and international air transport services connect Malawi to South Africa, Kenya, Zambia, Zimbabwe and Botswana as well as to the Netherlands, France, and the United Kingdom. Freight traffic at Malawi's international airport in Lilongwe increased from 5,463 tons in 1988 to 5,825 tons in 1989.

Manufacturing: Manufacturing accounted for 12.7 percent of GDP in 1989, a slightly higher percentage than the past five years. Malawi's small manufacturing sector is geared primarily to import substitution of basic commodities (clothing, food, beverages, and metal fabrication) and processing of agricultural products (tobacco, tea, sugar, maize, oil seeds, groundnuts, and macadamia nuts). The country imports all of its petroleum requirements, as well as most of the raw materials and intermediate inputs for the small manufacturing sector. The import liberalization scheme has resulted in greater availability of raw materials and spare parts, leading to improvements in manufacturing plant capacity utilization.

Part B - IMPLICATIONS FOR THE UNITED STATES

U.S. trade with Malawi has remained relatively steady during the last three years. American products account for about 5 percent of Malawian imports while about 12 percent of Malawi's products find a market in the United States. About 20 U.S. companies are represented in Malawi through subsidiaries, affiliates, or agents.

The most promising area for U.S. firms interested in exporting to Malawi is in the supply of materials and equipment required for bilateral and multilateral development projects. Bids of U.S. origin are specifically encouraged for projects funded by the U.S. Agency for International Development (USAID), the World Bank, and the African Development Bank/Fund.

Although South African and U.K. products are predominant, various importers have recently expressed interest in a wide variety of U.S. products, including chemicals, electronic goods, and agricultural commodities. Opportunities exist for the sale of equipment and materials used in the country's small agro-industrial sector, and electronic goods including computers and word processing equipment.

U.S. firms may wish to take advantage of Malawi's attractive investment climate. The policy of the Malawi Government is to encourage private enterprise and support market-oriented capitalism. At the same time, cooperation between the public and private sectors is frequent and large joint ventures between parastatal companies and private entities, both foreign and domestic, are common.

Investment incentives offered include tax concessions, depreciation allowances, import duty exemptions on certain types of plant and equipment, and deductions for land improvement and conservation in agricultural investments. The net result of the incentive system is that a new investor generally pays little or no local taxes for the first few years of operation. In exceptional cases, investors may be granted exclusive production rights and tariff protection. Royalties, dividends, profits, loan capital, and a proportion of personal earnings may be repatriated without restriction, although clearance through the exchange control authority is required. Equity capital repatriation is also subject to exchange control authority. There are no laws or regulations mandating reinvestment of any portion of profits in Malawi.

Investment opportunities have been emerging within the parastatal sector as the government seeks to privatize several holdings. Several industrial projects are under consideration, including a fertilizer plant, and a $150 million hydroelectric project. The expanding tourist industry offers potential for investment in new hotels and recreational areas.

The United States has an Overseas Private Investment Corporation (OPIC) agreement with Malawi, and several U.S. companies use OPIC coverage. The Export-Import Bank of the United States can provide trade finance for importers of U.S. products. In May 1990, a USAID-sponsored trade/investment mission visited Malawi to explore opportunities. The response by the Malawian Government and business community was enthusiastic and encouraging. Subsequent events, such as the inclusion of an American Pavilion at Malawi's International Trade Fair, have confirmed that there is room for U.S. investment and trade in Malawi.

Personal contact is essential when competing in the Malawi market. A visit to Malawi as part of a Southern Africa regional trip would, therefore, be useful. Commercial visitors are invited to visit the Embassy while in Lilongwe. The Embassy staff will make every effort to facilitate local contacts and provide current economic and commercial information. Additionial commercial information is available from the Malawi Desk Officer in the International Trade Administration, Room 3317, Department of Commerce, Washington, DC 20230, Phone: (202) 377-5148.

* U.S. Government Printing Office : 1991 - 282-906/20026